

Where does the United States stand in free trade and
the global market?

by Debra M. Ladensack

William Meyer
Dr. William Meyer, Advisor
(Political Science)

Dr. Nora Faires (History)

Nora Faires

1994

University of Michigan-Flint

Prologue

It is generally agreed that the United States operates within an economic system that advocates and practices free trade in the larger global economy. The theory of free trade seems to have remained the same since its identification by Adam Smith; however, the practice of free trade appears to have changed. It has evolved to a point where it seems to have become protectionist. Protectionism is witnessed as countries band together in trade agreements to protect and enhance their economic positions internationally. This protectionist positioning compares with the 16th and 17th century colonization period of the American east coast. Great Britain, during that period, engaged in the colonization of the American east coast for the purpose of expanding its trade and economic base. Today's trade agreements compare with the colonial trade agreements of yesterday.

To explain this concept the United States will be the focus of discussion as it has evolved from a British colony to a nation which may be on the brink of economic colonization by Japan. This evolution will be traced through post-war policies, trade policies, technological development, and educational practices of the United States. It will be shown that the United States has a tendency to be more "protectionist" in its stance in the global market yet still consider itself a "free trade" nation.

This protectionism is found in the North American Free Trade Agreement which is designed to practice "free trade" between Canada, Mexico and the United States. It is a reaction to the economic decline in American industry and exports because of decades of more wide open global free trade especially with Japan. Once the pinch of an import/export imbalance between Japan and the United States was felt in the United States, it has become feasible to consider "trade agreements" as the solution. Trade agreements do not exhibit literal free trade practice and so instead display protectionism as work.

Today, we might call countries who band together with trade agreements "spheres of trade" instead of "colonial partners in trade" since there is not one country that controls them, but they do seem to resemble colonization for economic gain. So the European Common Market and the North American Free Trade Agreement have created protectionistic spheres of trade.

The followers of free trade and the followers of protectionism seem to have one basic difference. The free traders are optimistic and trusting about the fairness of global economics; the protectionists are more cynical. One sees an ultimate global village where there is social, cultural, financial, ecological balance and harmony encompassing Earth. The other sees history books full of lessons on imperialism, dominance and submission because of power struggles. Today our Earth is full of independent republics uniting for economic benefits. These movements toward economic integration show that members are seeking the benefits of access to bigger markets. In all of these agreements for bigger trading markets, there are those who see the benefits and those who see the setbacks. Since there is not one universal trade agreement, what seems to exist is quasi-protectionism.

One free trade advocate explained his perception of trade blocs: "The continuation of these trading relationships well into the 21st century, however, is not probable even though the leaders of most countries involved continue to speak today as if it is. They simply do not recognize any fundamental long-term flaws in their structure. Each of these blocs is, by nature, protectionist. Continued economic prosperity depends on ever expanding global trade." (Feather, p. 378) Those who disagree see the trade blocs as a type of security against economic domination.

The trade issue faces all nations as they strive to improve their own economies. Exports to large consumer markets like those found in the United States can help build solid capital for exporting nations. Some refer to the competition among nations as trade wars. Some nations band together under free trade agreements to try to improve their economic strength. There is the North American Free Trade Agreement, European Common Market and rumor of an Asian market. These agreements offer economic protection to the participants or at least a market to share products and benefits enough to curtail massive imports from the other "outsider" traders. Mutual economic benefits are the goal. These mutual benefits appear to be economic protectionism.

The United States will be the focus of an analysis of the free trade issue; discussions of colonialism, trends in trade, governmental roles, and education will provide a framework for the position of the United States, especially when compared with Japan, in its efforts to remain an economic power in the "global economy." The posture of the United States will be shown as protectionist in its efforts to compete globally.

I. Colonialism: The building of trade empires

First, a look at colonialism can shed some light on the trade blocs of today. Economic growth, expansion, and protection were key goals during the colonial period just as they are today. The rise and fall of England and the United

States as colonial powers will be discussed. Japan's rise will be examined as it was assisted by 'United States' policy. This section will show that trade empires seem to follow a cycle (rise and decline) especially if left "status quo" or too uncompetitive when economic competition gets tougher. The decline of the United States as a trade empire will be discussed in relation to the rise of Japan as a trade empire. This decline will be traced as the United States moved from a colony of England to a major economic leader with a consumer market other nations like Japan penetrated and began to dominate.

Through colonization of North America, Great Britain hoped to discover a northwest passage for direct trade with Asia and hoped for trade with the Indians. They also hoped the colony could produce things to trade with England. The set up was such that the evolving colonies would trade only with England and would receive the same benefits as citizens of the British Empire. (Jordan, Greenblatt, Bowes, p. 39)

The British did build a masterful and profitable empire. It was said that the "Sun never sets on the British empire." Political and economic power made Britain the most influential country in the world. She had set up colonies worldwide to secure her trade interests. These worldwide links were also the same forces that eventually brought about her decline. The imperial monopoly that England had on her American colonies came under question. The colonists realized they too could reap benefits from trade with more

than just Great Britain.

The main reason for the American Revolution was not disloyalty to Great Britain but the fact that Britain had changed the rules with which the colonists had grown accustomed. After financial losses incurred during the French and Indian War, England needed funds and began to increase taxation of her American colonies in 1765. "Yet American taxation had a catastrophic effect on the British colonial system... They (the colonists) resented the British impositions as unnecessary because they did not accept the need for a regular army in North America; as unjust because they believed they already made a substantial contribution to British wealth through imperial trade monopoly..."

(Fieldhouse, p. 108) Many colonists were aware of their own political, nationalistic, and economic potential. They had realized they could become a viable independent nation. They had learned much from the superpower, Great Britain.

After the success of the United States in the Revolutionary War with England and with increased expansionism and population growth, it became time for the United States to build its own empire. Great Britain began to fall from world power and has continually done so over the past century. Three reasons for this decline were summed up by Henry Rosovsky, an economic historian of Japan at Harvard University.

1. Between the start of the Industrial Revolution in the 18th century and today, approximately twenty countries have experienced modern economic growth. New countries are joining the parade all the time, and the early

industrializers- primarily Britain, France, and United States-are continually facing new challengers. At present the most rapidly growing area of the world is in northeast Asia, and it may be elsewhere in the future. The point is simple: remaining on top or in contention is not a static process. (Lewis and Allison p. 247)

2. It takes a long time to become aware of decline. Although most economic historians agree that Britain's climax (as the world's greatest industrial power) occurred about one hundred years ago, this fact did not really become a matter of public concern until after World War One. Forty years of relative decline may have been an insurmountable obstacle. (Lewis and Allison p. 247)

3. Although a great many reasons have been given for Britain's economic decline, in my opinion the principal factors were internal and human, and therefore avoidable: British entrepreneurship had become flabby; growth and industries and new technology were not pursued with sufficient vigor, technical education and science were lagging; the government -business relationship was not one of mutual support. (Lewis and Allison, p. 247)

Today the United States exhibits many of these same symptoms. Like Britain, it has allowed itself to be buffeted by change instead of seeking to exploit it. It has remained inward looking and ignored economic opportunities of epochal scale in the emergence of world markets. (Lewis and Allison, p. 247-8)

The United States built and tore down her own colonial empire from 1898 through 1964. Her reasons for colonizing were similar to Great Britain's - trade and protection. For example, Panama accepted United States' protection in 1904 against Colombia and thus allowed the building of the canal which enabled the United States to operate a fleet in both oceans. By 1917, America controlled the Caribbean through treaties, buy-outs, and annexation. By 1964, America had either fully incorporated or entirely released the greater

part of her empire. Tariff assimilation made the United States empire the only colonial empire other than the Russian which formed a single economic system; and this gave it exceptional cohesion. But the balance of advantage lay with the colonies. All were primary producers who found their best markets in the United States. (Fieldhouse, p. 345-6)

America had begun a long-term increase in consumerism and a long term decrease in production. The seeds were planted during this sixty-six year colonizing period for America's increased importation of goods. This decrease in production and increase in consumerism marked America's decline as the leading exporter in the global market.

An important example in America's economic history of how it positively influenced another country and economically weakening herself occurred during the six year occupation of Japan following World War II. Since then Japan has become one of the biggest exporters to America. General Douglas MacArthur was given control of the instructions sent by the Allied Council. During this occupation MacArthur brought in many aspects of democracy, including freedom of the press, no secret police, woman suffrage, and recognition of labor's right to form unions. He also helped break up the large business organizations that had previously controlled about eighty percent of Japan's economy. (Jordan, Greenblatt, Bowes, p. 673) Through this Americanized rebuilding, Japan began its steady rise as a

world economic power.

Seven Japanese companies, Casio, Honda, Matsushita, Mitsubishi, Nippon Steel, Nomura, and Sony, really seized this moment. They took their root in the immediate post-MacArthur era and have burgeoned into international powerhouses. Today, they are major competitors with American counterparts in the free trade arena. These examples help illustrate the irony of America helping shape Japan's economic power, while in the long run sacrificing some of her own.

The post war policies and occupation of Japan by the United States created opportunities for companies in Japan to take root and flourish. Many of these companies ended up flourishing in the United States market itself which inevitably assisted in the decline of United States based export industries. Some of these multi-million dollar United States bound export companies will be highlighted now.

Casio is the world's largest maker of calculators today and was founded following a 1946 American challenge. "Stars and Stripes," the American military newspaper, staged a contest that pitted a United States made calculator against a Japanese abacus. The abacus won the first round, but lost the second. The significance is that from this challenge, a bright, young entrepreneur, Toshio Kashio, wrote: "Abacus is human ability and a calculator is technology." His belief that the technology knows no limits helped create Casio in 1957. (Moskowitz, p. 130)

Honda, the world's largest maker of motorcycles with \$9 billion in United States sales, was founded in 1948. It sprang from the heads of its founders, Soichiro Honda and Takeo Fujisawa neither of whom had a college degree, which meant that in America they never would have been hired by a big company and in Japan they never would have gotten anywhere in a big company. What Soichiro Honda had was the classic embodiment of the entrepreneur, someone who perceives a social need and proceeds to fill it. (Moskowitz, p. 281)

Matsushita, with \$6 billion in United States sales is the world's largest producer of robots, video cassette recorders and consumer electronics. The company was founded in 1918 and was partially dismantled by MacArthur's policy of breaking up financial trusts. Matsushita was barred from working for his company for four years. When he was allowed to rejoin his then failing company, he immediately joined with a Dutch electronics giant and the venture flourished. (Moskowitz, p. 347 & 353-3)

Mitsubishi, with \$9 billion in United States sales, is one of Japan's largest trading companies. It was an economic clique that MacArthur thought he abolished. But in 1952, when United States occupation ended, it almost overnight reestablished itself into a company that imports, exports, puts together deals, barter, and finances companies. (Moskowitz, p. 364-5) An interesting sideline to this company took place in 1986 when United States and Japan

were exchanging hot words about their trade imbalance. Mitsubishi Electric launched an ad campaign in the United States to point out that it "was making cellular phones at Braelston, Georgia; television sets at Anaheim and Santa Ana, California; semi-conductors at Durham, North Carolina; and video phones at Milpitas, California ... The message went on to say that it employs 2,000 people in United States, purchases parts from American suppliers, reinvests profits in its American Operations and tries to strike a balance between imports and exports. As far as we're concerned, anything else would be un-American." (Moskowitz, p. 368-9)

Nippon Steel, the world's largest steelmaker, was started in 1901 - the year Carnegie and Morgan merged ten United States steel producers into United States Steel Corporation in Pittsburgh. It was not originally called Nippon. It emerged when MacArthur broke up Japan Iron and Steel into four private firms. In 1970, the Japanese re-merged and recreated the combination its government had set up earlier. Instantly, they had the world's largest steel company. (Moskowitz, p. 413-15)

Normura is the world's largest financial services company. During the post-World War II boom in the Japanese stock market, it vaulted into second place in the world brokerage industry. It was toppled only by Merrill Lynch of the United States Although by several measures - market value and profits - Nomura is first, Merrill still leads in

terms of total revenues. (Moskowitz, p. 434-35)

Lastly, Sony, with \$2.7 billion in United States sales, is the world's largest maker of personal stereo players, supplier of broadcasting equipment and world's largest maker of compact disc players. Sony began in 1946 during Japanese reconstruction and today it boasts its largest market in the United States where it does one third of its sales. It takes pride in creating unique products, and its strategy has been not to "duke it out" in the market place but to come up with innovative products that command a premium price. Its trademark is beating competitors to the punch. (Moskowitz, p. 561-65)

The seven Japanese companies just outlined illustrate the importance the Japanese place on technological development and investment in industry. During the forties and fifties, Japan was busy building its domestic and foreign economic base. During the fifties and sixties the United States began to see a decline in its gross national product. High technology industries that were virtually monopolized by the United States began to show decline in exports as other nations picked up their pace of exports.

The reduction in United States exports coupled with its next to zero savings rate by its citizens have indeed helped reduce the national productivity of the United States. With low exports and low consumer saving which funds investments in industry and technological research, the United States's economy became weaker and its consumer base more prone to

purchase Japanese imports. Japanese families, on the other hand, save nearly twenty percent of their income. The United States has less public savings for investment in industrial plants and equipment. Japan's story is the opposite. (Lewis and Allison, p. 16-19) America and its consumer driven society seem to have reached the point where economic growth is on the decline.

Although the United States continues to engage and profit by its own global investments, it has been tremendously changed internally by its consumer buying habits, its weakened industrial base, and its increased dominance by Japanese business holdings and imports. The United States economy is being challenged by predominantly Japanese imports. This can be labeled as colonization of a consumer base without political infusion. "History's pendulum has a way of swinging in this manner. Former colonies become the colonizers. The world is also driven today by an economic interdependence that has ballooned world trade." (Moskowitz, p. 7) Americans are losing their dominance in the world markets and are finding more and more foreign investors in their home market. The United States may have followed Great Britain's example to a point where economic stability became challenged by outside or colonistic competition.

"No one would describe the United States as a colonial nation, but it may come to pass. In the ten years ending in 1986, foreign holdings of American assets quintupled. At that rate, it will not be long before foreign investments in the United States surpass American investments overseas ...The United States became an independent country because

colonists chafed at being economically dependent on England. Two hundred years later dependence on foreign suppliers was becoming a fact of American life. The United States treasury was banking on the Japanese to buy government debt—that is, be willing to lend money to America." (Moskowitz, p. 6)

The question has become, "Who owns America?"

Great Britain influenced America. America influenced Japan. And now Japan is influencing the world. All three rose to power through trade. Colonial trade spurred the growth of all three countries; and when Japan lost it all after World War II, they were rebuilt with help from the United States. Now Japan is embarking on a new kind of colonialism—exports and international business ownership. She may be a tiny island, but her economic might is witnessed worldwide. Her presence is most definite in the United States.

One must question whether the United States is ready for or even realizes that it may be part of what seems to be a cycle. Like Great Britain before her, the United States may well be following a course of economic decline because of reliance on its own status quo technological markets and heavy consumer spending on imports. The next section will examine how free trade and trade blocs may affect the United States and its economic status in today's global economy. Can a parachute like North American Free Trade Agreement really help save the United States economically?

II. Trends in trade: Industry, trade blocs, and employment

Today many third world countries have begun to create the technologies that have made the United States so economically viable. These countries make less expensive goods to export and thus have infiltrated the export market that the United States used to dominate. "The United States has ceased to be exceptional." (Lewis and Allison, p. 34) So, it is more difficult to simply allow Smith's "invisible hand" of supply and demand rule the American economy. Rules have had to be added to the free trade system to protect American interests. Also, in industries such as automobiles and computers, the United States has lost Ricardo's "comparative advantage"; many global economies can now compete successfully in markets which were once dominated by the United States.

Several trends have helped create the situation that the United States faces today. "One of these trends was the emergence of new companies and new technologies in such fields as semiconductors, computers and telecommunications. Another was the accelerating transfer of American capital (through foreign aid and commercial loans) and American technology (through foreign plants and licenses) to other countries around the world. Removal of trade barriers grouped with capital, technology, and lower wage rates produced formidable competition especially in basic industries." (Lewis and Allison, p. 27)

It is said that in order for a healthy economy to thrive, a nation's imports must be offset by its exports.

"If a country imports more than it exports, it has an unfavorable balance of trade, or a trade deficit. By the early 1990's, the United States averaged a trade deficit of about \$75 billion." (Boone and Kurtz, p. 69) This deficit would affect the American workforce by increasing the number of homeless, unemployed, and underemployed. Uncompetitive companies in the United States have sunk into staff reduction and spending cutbacks. This affects the internal national economy. The United States has undergone an enormous transformation since Adam Smith's economic philosophy. Our leading exports have been turned into foreign imports and the laissez faire policy and comparative advantage theory are being challenged.

Bill Lynott of the "Buy American Foundation" insists that our country is at war. "It's not a war of violence or hatred, but an economic war. And like any war, it's going to produce one winner and one loser." (McNichol, p. 8) Lynott advocates buying American products not because it's patriotic, but because the United States is competing against a blend of individual economies in sharp competition. "To suggest they're acting in sympathy with one another is naive." (McNichol, p. 10)

If a "global economy" is naive thinking, then why is it that numerous countries are banding together to make trade blocs? They are setting up these trade deals for protection of their own economic positions. Essentially the trade blocs are political steps to help protect and build economic

growth in participating countries. This results in a "segregated" global economy; it is built on rules and by teams, but not on strict free trade philosophies.

As a result of this politics/economics mix, the global marketplace finds the European Common Market, the North American Free Trade Agreement and the hint of the emergence of an Asian Pact. Free trade, according to history's economists, is supposed to be ruled by supply and demand and price/quality issues. Consumers ideally are the ones who are supposed to select products. The emergence of trade blocs show how this "political hands off policy" on economics is being revised. It shows that protectionism can mix with "free trade." An inside edge is being sought and thus some competition is being filtered out of the "blocs." For example, the European Common Market, developed by the governments of participating countries, protects itself economically. It assures its participants some mutually beneficial advantages to "free trade" within its boundaries and thus edges out some outside competition.

A political trade agreement is currently waiting ratification between the United States, Canada, and Mexico (North American Free Trade Agreement). The purpose is to expand each of the three markets within their collective boundaries. One problem with this deal is the damage it will do to the automotive industry in the United States. This industry has already suffered great losses to Japanese imports. Now it may lose further to the reality of cheaper

labor costs in Mexico. It is not so much the auto companies who will suffer more, but it is the automotive employees and automotive subsidiaries who will. It is claimed that North American Free Trade Agreement will further displace American workers. This shows that there can be economic losses regardless of protectionist measures within "free trade."

"Organized labor, led by the AFL-CIO, has been fighting the proposed United States-Mexico pact tooth and nail. Additional opponents of the pact include the American Textile Manufacturers Institute, as well as certain environmental and human rights organizations. They argue, among other things that: 1. The agreement would have negligible positive effects on the United States because our economy is twenty-five times larger than that of Mexico. 2. Mexico would have an unfair advantage because of its low wage rates. 3. Nothing in the pact would address workers' rights. 4. The pact would promote pollution of the environment." (Benjamin and Miller, p. 173)

Proponents argue that Mexico will be open for many exports from the United States and thus spur on economic growth for the United States. Proponents also see this agreement as helpful to the North American auto market. Provisions have been made that call for vehicles and auto parts to be sixty percent North American made within an eight year period. This, "along with the elimination of the United States' tariff on region-produced automobiles, will probably have the effect of increasing sales of United States' auto parts in North America and replacing some North American sales of Asian-produced automobiles with autos produced by General Motors, Ford, and Chrysler in Mexico." (Morrison & Foerster, p. 9)

Opponents argue that too many American jobs, especially in the automotive industry will be lost and so the advantage

of the agreement is questionable. There would be increased unemployment in this industry which once helped lead America to economic growth worldwide. This industry once provided America's "comparative advantage."

"Columnist Bob Kuttner alleges that David Ricardo's eighteenth century view of the world does not describe the global economy as it actually works in the twentieth century. He says today comparative advantage is determined by exploitable wages and government action; it is not determined by free markets." (Bonello and Swartz, p. 254)

David Ricardo's "comparative advantage" theory was described this way: "It is quite as important to the happiness of mankind that our enjoyments should be increased by the better distribution of labor, by each country producing those commodities for which by its situation , its climate, and its other natural or artificial advantages it is adapted, and by their exchanging them for the commodities of other countries as that they should be augmented by a rise in the rate of profits." (Abbott, p. 333)

On one hand, Ricardo said nations should export those items they naturally or artificially produce better. On the other hand, Kuttner suggests that in modern times this is not how imports/exports are determined; he believes they are determined by exploitive wages and government action. The United States automotive industry can be used to illustrate these conflicting views and point to a need for free trade reform measures.

The automobile was invented in the United States and provided an economic boon for many years. It was, for a long period, what America did best or its "comparative advantage." But because of the availability of cheaper autos found through foreign imports from Japan, for example, this advantage was eroded and diminished to such a point that "one out of every three cars" in the United States is now an import. (Boone and Kurtz, p. 69)

This seems to point to a rather ironic and bleak reality for United States autoworkers: "Buy a foreign import car because it's cheaper and, of course, use your unemployment check." It also reflects another one of David Ricardo's philosophies. "He assumes that under a system of perfectly free commerce men will continue to be motivated by self-interest. The status quo, rather than the past or the future, holds his attention. The working man he regards as merely an instrument of capitalism." (Abbott, p. 274) Today many challenge this concept of the working class as "instruments of capitalism." That is why North American Free Trade Agreement is being challenged by many organizations including human rights organizations. This leads to a further discussion of where the United States stands today in "free trade." The issue not only contends with exports, imports and deficits, but also with people - American workers. Again the United States and Japan will be compared and contrasted as to how they deal with the trade issue and their citizens.

III. Trade: Governmental Roles and Education

There is much evidence that Japan, for example, does a good job at taking care of its citizens' employment needs. "Free trade" ideologically is strictly an economic practice. Governments or politics are supposed to employ a hands off policy. This is not how it works in Japan.

"The famed Ministry of International Trade and Industry has pursued this essential strategy for better than twenty years, keeping foreign borrowers out of cheap Japanese capital markets, letting in foreign investors only on very restricted terms, moving Japan up the product ladder from cheap labor intensive goods in the 1950's to auto and steel in the 1960's, consumer electronics in the early 1970's, and commuter, semiconductors, optical fibers, and just about everything else by 1980. The Japanese government also waives antimonopoly laws for development cartels, and organizes recession cartels when overcapacity is a problem. And far from defying the discipline of the market, the Ministry of International Trade and Industry encourages a fierce domestic competition before winnowing the field down to a few export champions." (Kuttner in Bonello and Swartz, p. 259)

Japan has become a super power in economics because of its blend of political/economic policies. "Americans believe so fervently in the free markets, especially in trade, that they shun interventionist measures until an industry is deep trouble. Then we build it half a bridge." (Kuttner in Bonello and Swartz, p. 259)

American government is reactive to crises instead of using ingenuity to burgeon progress and opportunities in business. The best two examples would be the tremendous losses American workers in steel and auto industries have sustained. Where was the foresight or planning for modernization, worker reeducation, and quality engineering standards to keep them competitive? They came only on the

heels of defeat. It seems, as in Japan's example, there must be a mix of government and economics, especially to compete in the global market. Government must look not only at the big picture like the North American Free Trade Agreement agreement but also the smaller picture, the American family, employees, and tax payers.

The economic facts and tendencies in the United States today indicate that it is time for a revamping of Adam Smith's 1776 laissez faire concept of economics. The invisible hand of supply and demand is locking factory doors, switching paychecks with unemployment checks and using the capitalist system to sell portions of the continental American pie to foreign investors, specifically Japanese.

Do multi-generational factory workers simply go to college and earn a degree for another line of work? It seems impractical and impossible for most. Politically structured economic reform measures are needed and could help the United States like the Ministry of International Trade and Industry has helped Japan.

Japan, as a foreign investor and exporter to the United States will be examined to show the need for the United States to become politically active in its economic position. Discussion will focus on how Japan's trade practices affect the United States and how some United States economic thinkers suggest the United States should react. Reactions call for not only political reform but also educational

reform.

Irwin M. Stelzer outlined four basic positions that address Japan and the free trade issue. Revisionists indicate that "the very structure of Japanese society and government makes change in Japanese behavior unlikely, and that the Japanese simply are not like us: They play by a different inscrutable, set of rules. Japan is unable or unwilling to restrain the one-sided and destructive expansion of its economic power." (Stelzer, p. 16) So revisionists believe that we must change our policies since Japan cannot or will not change its policies.

Unilateralists, free traders, say the "economics are simple: If the Japanese choose to rely on high cost homemade products rather than on more efficient American made alternatives, why should we retaliate by denying ourselves their well-priced, low maintenance automobiles?" (Stelzer, p. 17) The next group, the protectionists, would choose a political answer to the unilateralists and say "that tit-for tat is more appealing to most people than turning the other cheek." (Stelzer, p. 17)

Protectionists are generally ... "Democrats who would not only retaliate quickly and hard against any Japanese trading restrictions, but also protect any industry injured by foreign competition." (Stelzer, p. 17) The last group Stelzer describes as a middle-of-the-road-type between unilateralists and the protectionists.

The reciprocals prefer to work through the General

Agreement on Tariffs and Trade (GATT) which is responsible for overseeing progressive reductions in world tariffs.

(Stelzer, p. 17) "The GATT provides that a country injured by the tariffs or subsidies of another nation need not turn the other cheek, rather it is permitted to retaliate in a measured way against a like quantity of the GATT violator goods - in fact, if not in theory." (Stelzer, p. 17) Stelzer added that this type of retaliation has many virtues because it serves as a political safety valve which allows injustices to blow off like steam without destroying the whole trading system. He further stated that Adam Smith also found virtue in retaliation, but questioned whether one would know if it had the correct effect, since a politician would be analyzing it. (Stelzer, p. 17-18)

Japan does loom as a threat to the economic stability of the United States. It continues to restrict imports either by flat refusal or by setting up restrictions or rules. One such rule applied to American construction firms. They were not allowed to bid for business in Japan unless they could prove prior experience there, but, of course, they could not obtain experience without at least bidding. (Stelzer, p. 16) Efforts have been made by the United States to combat such a rule.

The Bush administration "won" a set of concessions in its "Structural Impediments Initiative or SII" and it was reciprocal in nature. The Japanese were asked to have longer banking hours during which automatic bank teller

machines were open and to give some of its civil servants a shorter, forty hour work week in order to shorten work hours in the private sector. The administration felt this would make them more like Americans - work less and spend more. Japan agreed to those and also to strengthen anti-trust enforcement, speed up patent approval, begin legislation to permit building of supermarkets, stop delaying customs clearance, and to boost public spending. The commitment from the Prime Minister, Toshiki Kaifu, may be there but there is serious doubt whether Japanese interest groups and its trade commission will ultimately comply. (Stelzer, p. 16) External pressure from the United States may not measure up to Japan's own inward looking pressure groups.

A free trade advocate from the United States, Jagdish Bhagwati-Columbia University Professor, "concedes" that without pressure from the United States, the Japanese won't play the trade game fairly. He says that the United States not only needs to tell its people to "buy American," but we have to get the Japanese government to get the Japanese to "buy American." Bhagwati labels Japanese as inward-looking and wanting to take technology from the outside and use it themselves under strict control, and they see the outside world as a place to exploit for opportunity. Japan sees itself as very competitive and sees the outside as using the unfair trade label unfairly. Bhagwati feels that we should apply pressure through GATT, but that forcing imports on Japan violates the whole principle of free trade. (Minard,

p. 96-98)

Bhagwati indicated that "the causes of our deficits and Japan's surpluses are more fundamental" than the trade issue. He says, "The real problem is the excess spending in our system... Our domestic personal savings -private savings - has collapsed." (Minard, p. 98) One of the Bush administration's requests to the Japanese was to give their citizens more time to spend money in order to be more like the United States. The United States has the deficit and the Japanese have the surplus. It seems an unlikely proposition for them.

Bill Emmott, in The Sun Also Sets, indicates that the surplus did not come from "nowhere." He believes the surplus is the "product of a particular combination of circumstances: abundant savings, low and falling government borrowing, low and falling domestic corporate investment, a strong dollar in 1982-85, and a rapid growth in productivity." (Emmott, p. 241) He further explains that during the 1980's this surplus grew to the point where it pushed down the value of the yen, lower than the return on investments in dollars. "This, in turn, affects trade by making exports more competitive. The trade surplus generates flows of money into corporate accounts, reducing their borrowing needs and increasing the domestic savings surplus. One way or another, such a domestic savings surplus will flow abroad as capital." (Emmott, p. 243)

Much of that capital took the form of Japanese car

makers with a wide network of dealers in America. They established a solid market share, while American exporters have often closed their dealerships. (Emmott, p. 245) With Japan's further emergence into the American car market, there was more lower priced competition. Productivity and price have been the Japanese auto makers' claim to fame in America. Ultimately a call for fewer imports was made in the United States since domestic car sales were low.

Voluntary restraint agreements in the 1980's invited the Japanese to restrain their export of cars. Emmott points out that this interference in free trade actually did more harm than good.

"The deal led to a scarcity of Japanese cars relative to demand and Japanese firms simply raised their prices and, helped further by the strengthening dollar, made enormous profits. This windfall would have then been invested at home which made them even more competitive versus American firms, and later was invested in factories in America." (Emmott, p. 269)

The voluntary restraints did not work for still another reason. The Big Three, instead of keeping their car prices low, raised them to Japanese levels and did not become more competitive. Emmott forecasts that unilateral free trade will be the key in the 1990's not reciprocal deals. (Emmott p. 269) Some, however, prefer a more protectionist stance.

Edwin Finn, in "A New Cold War," says that ... "depending on how you look at it, Japan and other Asians are either unfair competitors or competition who work harder than others are willing to, and so must be kept out to protect other people's living standards ... Throughout the

1980's European and American businessmen have grown increasingly frustrated by their inability to compete with Japanese rivals, whether at home or in Japan. Japan and its neighbors do run their economies on the mercantilist model, with government enacting policies to help local industries export more than they import." (Finn, p. 56) Their governments enact policies and some think perhaps the United States government should do so also.

Perhaps it is a drastic concept, but especially in the dim light of the recessionary economy of the United States with hundreds of closed factories and thousands in unemployment lines, the United States should enact an import ban on some products until it can get its own people on their feet. The United States has been flooded by imports in the shoe, automobile, steel, and semi-conductor markets, for examples, and this ultimately hurts employment in the United States. Charles R. Day, editor of Industry Week, calls for an end to the unwritten policies of the United States concerning industry. He says that once state legislatures, regulators, administrations, political parties and interest groups are finished with an issue, we end up with a "hodgepodge" of confusion and indifference. Day also implores that "we have to stop competing like that." (Day, p. 5) He calls for a carefully crafted policy or mission statement that will, "force politicians to state what they stand for and provide a benchmark to measure their success ... an industrial agenda can help frame efforts to resolve

domestic matters concerning health, education, banking, tax rates... That the global economy leaves us no choice ... Industry needs to turn to government again - just as government needs to turn to industry." (Day, p. 5)

The Japanese exhibit their political/economic mix in their trade policies, regulated by government policies. The more laissez faire economics of the United States allows its industries to flounder against foreign competition and its citizens to flounder in uncertainty over their job security. Some believe the United States needs to manage its trade better.

In "The Free Trade Fallacy," Bob Kuttner expresses his belief that America can improve its economic position through "managed trade, on the model of the Multi-Fiber Arrangement." (Kuttner in Bonello and Swartz, p. 261)

The arrangement, which was initiated in the 1950's, helped protect the American textile industry from huge losses to cheaper foreign imports. The plan was used in Europe as well and limited import growth in the textile industry to six percent per year. According to strict free trade theory this agreement should have caused market stagnation, but ... "the result has been exactly the opposite. The degree of protection, and a climate of cooperation with the two major labor unions, encouraged the American textile industry to invest heavily in modernization." (Kuttner in Bonello and Swartz, p. 260)

Domestic competition in the textile industry helped keep

prices low and kept the industry innovative.

Free trade turned to managed trade for key American industries could be what is needed to limit the import rate and increase the rate of modernization in our domestic industry. (Kuttner in Bonello and Swartz, p. 261-262) Kuttner also believes the United States "should train more economists to study particular industries or micro-economics." (Kuttner in Bonello and Swartz, p. 262) His last point was that value should be placed on well paid American workers because they are also American consumers. (Kuttner in Bonell and Swartz, p. 262)

As consumers and employees Americans can also work toward preserving their economy. This can be done through their shopping habits and through education. Lynott believes that support of North American Free Trade Agreement will be at the expense of our own wealth. He urges consumers not to become "Japan bashers" but to choose to purchase American products when good quality and good pricing is apparent. He suggested that consumers learn to ...look at the label. " A lot of products with American sounding names are foreign. When enough Americans become educated, we won't have to worry about our trade deficit. So consumers will solve this entire problem themselves." (McNichol, p. 12)

Americans can also become better prepared to meet the challenges of a fast-paced, world-wide technology race. This is where education is key.

Willard R. Daggett suggests that what the United States schools need to do is prepare students for the challenges of technology and business. He argues that "America is not competing internationally because we don't have the capacity ... American schools - elementary, secondary and higher education - must begin to become semi-relevant to something ... American businesses are pushing for school reform - as they are in Europe and Asia - because education has become extraordinarily disconnected from the very world in which it exists." (Daggett, p. 10)

He feels that American schools offer a great background for culture, sports, and socialization but lack technical reading for lifelong learning in the work world and they also lack mastery of statistics, logic and probability measurement systems as requirements for university entry. (Daggett, p. 11) His bottom line is that the United States needs huge educational reforms in order to produce employees who can help the country compete in an international economy because right now "American schools do not have the capacity to compete internationally." (Daggett, p. 11)

A country's education system influences the status of its technology and its technological goals also influence the structure of its education. In a speech, David T. Kearns, CEO Xerox, expressed concern over the weakness of the American education system in producing a qualified workforce. He said, " The fact is, the basic skills of our workforce -particularly at the entry level - are simply not

good enough for the United States to compete in the world economy ... We're going to need people who are not only proficient in the basic skills, but who know how to think and communicate what they're thinking." (Kearns, p. 150-153)

It appears that things are not this way in Japan. Its corporations do not essentially "take what they can get, " but instead they recruit. "Another driving force of Japanese education is the fact that prestigious companies and government bureaus prefer to recruit employees from a select group of universities. Parents and their children recognize the lifelong advantages of gaining admission to these select universities." (Cummings and Kobayashi, p.38)

This point is further illustrated when United States college graduates are compared with Japanese high school graduates. Thomas Rohlen stated, "It would not be an exaggeration to say that in many respects the upper half of Japan's graduating high-school students possess a level of knowledge and analytical skills equivalent to the average American graduating from college." (Rohlen, p. 34)

Japan's international economic challenge is manifested in her export business. This presents the United States with a competitiveness that she is not accustomed. "This new competitiveness presents a major dilemma: either reform many of our basic institutions - such as savings patterns, management industrial relations, and education - in an effort to adjust and reinvigorate our own system, or adopt a

protectionist stance, step back from international free trade and forfeit growth and benefits it has brought."

(Rohlen, p. 33)

More and more, Japanese economic growth is infiltrating the American market. The United States is importing more than it is exporting. Can its education system be blamed? Greg Sheridan believes the answer is "yes ...as the deficiencies of our work forces become more obvious, and as economic power flows from our societies and toward industrious societies of Asia, we can reflect that a large part of the problem lies in the classroom." (Note: Sheridan is referring to both the United States and Australia.)

(Sheridan, p. 33)

This point is further illustrated by Lewis Lord. "Some experts go so far as to suggest that the failings in education put the nation in danger of becoming a second class economic power." (Lord, p.58)

Perhaps, a quote from Harry Gray, former chairman of United Technologies, best sums up the current threat of the Japanese education and economic system: "For many business leaders, the industrial world has increasingly become a euphemism for Japan." (Lord, p. 58)

IV. Conclusion

This analysis of the United States and how it stacks up in the global trade arena evolves around three basic questions:

1. Does the United States understand that it appears to be

in a cycle of change that saw its rise and decline as an economic force and that it may be on the verge of economic dominance by international economies?

2. Should the United States government take on a more active voice in the economy?

3. Is the country ready and willing to educate its workforce to become better competitors in the technologically driven global economy?

Most American citizens would answer yes to all three questions; their ideas on solving those three problem areas vary, however. Change is tough to embrace. A change in economic structure and philosophy is one of such magnitude that it can only occur gradually. Just realizing that change is necessary took decades since many believe economic decline in the United States began in the 1960's.

The United States seems to be in an economic cycle. It struck out on its own after taxation and economic political power struggles with England. It grew and thrived due to entrepreneurship, industry, farming, land ownership and gradually became the most influential world power. Others caught up, gradually. While consumers in the United States engaged in the "pursuit of happiness," the United States began to lose to cheaper and quality driven imports from foreign sources. Americans kept buying, abiding by their conspicuous consumption patterns. American industries began to feel the pinch. They were losing money and had to revamp, re-educate, relocate and some retire.

The United States has become one of the most sought after markets because of its huge consumer base. Americans basically are spenders, not savers which provides an open market for world traders. Once, at the top of the economic ladder, the United States has begun a decline. It now imports much more than it exports, and its leading contender has become Japan.

Japan's bustling economy can be attributed to its large savers, its government regulation of trade, its education system based upon higher technical training and its inward-looking spirit. Politically, they do what is best for their country economically.

Contrarily, Americans seem to do what is best for them individually. America has really never been faced with severe economic breakdown spearheaded from the outside world.

Now with North American Free Trade Agreement, it appears that the United States wants to join other countries for the mutual benefits of bilateral trade. This banding together for mutual benefits also seems like the cycle beginning again if it is compared to colonialism. Although Canada and Mexico would not be "colonies" of the United States, they would become large markets for exports from the United States. This resembles England's set up with the thirteen American colonies.

This "colonization" could also be looked at much differently. The United States could become the "economic"

colony of Japan, Mexico, or Canada because of its huge consumer market that buys a lot of imported goods.

Many also argue that American workers will lose out under NAFTA because of cheaper labor costs in Mexico. There will be a long period of personal setbacks for many families in the United States, but perhaps it will be better for future generations. To help prepare the future generations, the United States must improve its education system so that it produces employees who are technically literate and able to compete in the international research and development climate. It must educate its citizens to be producers, not just consumers. The United States government must also back and invest in education as well as research and development.

What America has been selling for a long time is its public sector - the American consumer. This buying public is the market most foreign investors and exporters seek. This buying public also needs education. It needs to learn that savings is an investment not only for their immediate family, but also for the nation. A one sentence quote from Paul Volcker sums up the results of excess consumerism: "We're living on borrowed time and increasing amounts of borrowed money." (Feather, p. 293)

The United States is being shaped by global forces she has helped to create. But, despite this contribution, America does not seem to be the great power she once was. Perhaps it is part of the cycle of rising and falling great powers.

"Today the nation which reached for the stars and made one giant leap for mankind is faltering badly and in danger of burning out rather dramatically. Sadly, unbeknownst to the majority of Americans, just like Britain before it the United States has a waning economy ... The United States became a debtor nation in 1985, thus entering a period of relative decline as a global power. The good news is that the nation can be revived and prosper ... as a socialistic entrepreneurial society, joining forces with Canada and Mexico, to play a new global role in the 21st Century." (Feather, p. 293)

If this is in fact the way things will work out, then it appears that the protectionists would have won at least this part of the economic cycle story. The cycle's stage is where "free trade" needs governmental intervention in order to keep involved countries economically sound. The world would again be "colonizing" or forming partnerships for economic growth and security.

BIBLIOGRAPHY

- Abbott, Leonard Dalton (editor). Masterworks of Economics. Doubleday and Company, Inc. Garden City, N.Y. 1946.
- Benjamin, Daniel K. and Miller, Roger LeRoy. The Economics of Macro Issues. West Publishing Co. St. Paul, MN. 1992.
- Bonello, Frank and Swartz, Thomas (editors). Taking Sides. Clashing Views on Controversial Economic Issues. The Dushkin Publishing Group, Inc. Guilford, CT. 1988.
- Boone, Louis E. and Kurtz, David L. Contemporary Business. The Dryden Press. Harcourt Brace Jovanovich College Publishers. Orlando, FL. 1990.
- Cummings, William K. and Kobayashi, Victor N. "Education in Japan." The Education Digest. April 1986. LI No. 8. pp. 36-39.
- Daggett, William R. (edited by MEA Voice) "Expert Observer sees major higher education crisis that is impacting entire continuum of education." MEA Voice. April 12, 1993. Vo. 70. No. 8. pp. 10-11.
- Day, Charles R. "We Need a Better Policy." Industry Week. March 18, 1991. Volume 240. p. 5.
- Emmott, Bill. The Sun also Rises. Times Books. Random House. New York. 1989.
- Feather, Frank. G-Forces. William Morrow and Company, Inc. New York. 1989.
- Fieldhouse, D.K. The Colonial Empires. Delcorte Press. New York. 1967.
- Finn, Edwin A., Jr. "A New Cold War?" Forbes. March 6, 1989. Volume 143. pp. 56-58.
- Jordan, Greenblatt, Bowes. The Americans. McDougal, Littell. 1984.
- Kearns, David T. "The United State's Educational System: A Recovery Plan. " Vital Speeches of the Day. December 15, 1987. LIV No.5. pp. 150-153.
- Lewis, Hunter and Allison, Doanld. The Real World War. Coward, McCann & Geoghegan. New York. 1982.
- Lord, Lewis J. "The Brain Battle." U.S. News and World Report. January 19, 1987. CII No. 2.

McNichol, Tom. "Why Buy American?" The Times Herald USA Weekend. April 2-4, 1993. pp. 8-12.

Minard, Lawrence. "Pressure Has its Uses." Forbes. June 12, 1989. Volume 143. pp. 96-98.

Moskowitz, Milton. The Global Market Place. MacMillan Publishing Company. New York. 1987.

Rohlen, Thomas P. "Education: Do we want to follow Japan?" The Education Digest. April 1986. LI No. 8. pp. 36-39.

Sheridan, Greg. "How the Japanese Beat Us in School." World Press Review. May 1987. XXXIV No. 5. pp. 32-33.

Steinberg, Richard H. (Morrison and Forester) What the North American Free Trade Agreement Means to Business. An Industry by Industry Briefing on Effects and Opportunities. San Francisco, CA. September 1992.

Stelzer, Irwin M. "How to Save Free Trade and Still Trade with Japan." Commentary. July 1990. Volume 90. pp. 15-21.